

THE LUTHERAN WORLD FEDERATION

Meeting of the LWF Council

Medan, Indonesia

12 – 17 June 2014

Report of the Chairperson for the Finance Committee

Exhibit 10



THE
LUTHERAN
WORLD
FEDERATION

Report of the Chairperson for the Finance Committee

Ms Christina Jackson-Skelton

1. Introduction

This report is focused on presenting the 2013 financial results and other financial matters that will come before the Lutheran World Federation Council in the course of its 2014 meeting. In fiscal year 2013, the total income for the Lutheran World Federation (LWF) was EUR 105.6 million, an increase of 5% over the prior fiscal year, in line with the LWF global strategy and the Council-approved budget plans. The increase is a result of two dynamics:

- Increased financial response to the emergencies in Africa (Ethiopia, Chad, Namibia) in providing essential humanitarian assistance to the affected population
- Increased programming and revenue for patient care and maintenance in AVH hospital, Jerusalem

The generosity of the communion members and related organizations has made the remarkable accomplishments of the past year possible. Revenue increased sufficiently to cover annual expenses and to deliver our strategic commitment without having to use any reserves.

In 2013, LWF focused on its stated objective of growing in a sustainable manner that will create long-term value through balancing the budget, improving the financial systems, maintaining a healthy cash flow and mobilizing resources.

The 2013 consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) and International Accounting Standards (IAS). The revised standards for the valuation of pension liabilities (IAS 19) had an impact on our comprehensive financial results.

The total increase in reserves during the year was EUR 4.1 million, reduced by 1 million to effect the changes in pension liabilities for IFRS presentation. However, the total reserves in 2013 increased to EUR 22,223,780 from EUR 18,521,263 after the restatement of pension liabilities. The increase in reserves is mainly due to the large accounting surplus of EUR 4.3 million from operations at the Augusta Victoria Hospital in Jerusalem, which is tied up in accounts receivable; not available in cash.

Overall, it has been a positive year for the LWF, even as challenges remain as it strives to move towards its goals of sustainable operations and effective cash management while continuing its commitment to a balanced budget.

2. 2013 Financial Highlights

The Lutheran World Federation income was EUR 105.6 million and expenditures were EUR

101.5 with positive net results from operations of EUR 4,099,982 for the fiscal year ended December 31, 2013. This was composed of negative results of EUR 350,683 for Geneva Coordination and positive results of EUR 3,749,299 from field operations, primarily an operating surplus at the Augusta Victoria Hospital. The negative results are mainly attributable to:

- Payment of EUR 201,000, which was not budgeted, for the under coverage of the Staff Welfare Plan (SWP) as the employer contribution to complete the liquidation process
- Provision of EUR 230,00, which was not budgeted, to comply with IFRS (IAS 19) and the resulting impact on pension liabilities for the year 2013

2.1 Overview of the 2013 consolidated results:

Consolidated Results	Dept. for Theology & Public Witness	Dept. for Mission & Development	Dept. for World Service	General Secretariat & Dept. for Planning	TOTAL
	EUR	EUR	EUR	EUR	EUR
Income	1,613,025	8,511,268	93,166,652	2,395,852	105,686,797
Expenditure	1,641,040	8,419,122	88,903,689	2,622,964	101,586,815
Net Financial Result	(28,015)	92,146	4,262,963	(227,112)	4,099,982
Amendment new Standard IAS 19	423,436	792,764	830,210	1,063,590	3,110,000
Comprehensive Result	395,421	884,910	5,093,173	836,478	7,209,982

2.2 Departments Performance - Geneva Coordination

The operating deficit for the Geneva coordination was EUR (169,754) compared to the budgeted deficit of EUR (151,390). Actual results against the budget in EUR by departments were as follows:

Departments	Budget (EUR)	Actual (EUR)
Theology & Public Witness	540	3,300
Mission & Development	947	150,775
World Service	6,450	(175,375)
General Secretariat, Planning & Operations	(159,327)	(148,454)
Total	(151,390)	(169,754)

The adverse variances were due mainly to Staff Welfare Plan under coverage payments, exchange losses and project write-offs, while the average EUR/CHF rate for the year of 1.22 compared with the budget rate of 1.25 also had an adverse effect when converting Swiss Franc.

The Geneva coordination expenditure was 2% below budget in Swiss Franc terms:

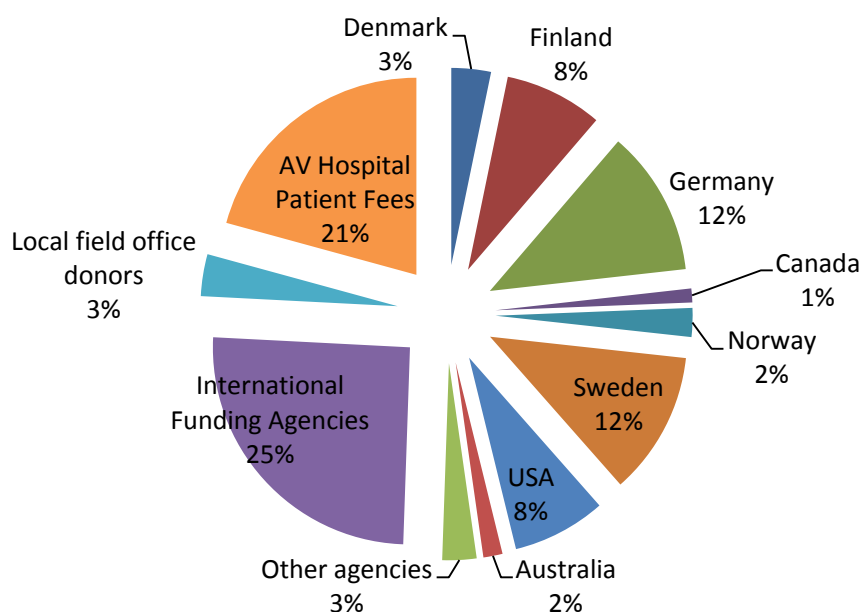
Departments	Budgeted Expense (CHF)	Actual Expense (CHF)	Variance %
Theology & Public Witness	1,503,808	1,483,365	1%
Mission & Development	2,997,917	2,807,903	6%
World Service	3,660,372	3,576,586	2%
General Secretariat, Planning & Operations	4,269,159	4,306,937	-1%
Total	12,431,256	12,174,791	2%

2.3 Income

Receipts totaled EUR 105.6 million for the year compared with EUR 100.1 million the previous year, an increase of EUR 4.5 million or 5%. Changes in the level of income are mainly due to increased emergency support and AVH hospital operations.

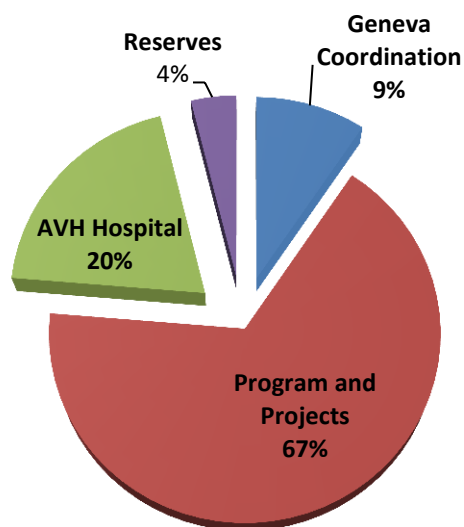
The following chart shows 2013 income support according to major categories and donors.

LWF Income 2013 – EUR 105.6 Million



LWF Income for 2013 of EUR 105.6 Million was allocated as indicated in the following chart:

LWF 2013 Income Allocation – EUR 105.6 Mission



2.4 Membership Fees

Membership fee contributions are crucial for our financial stability, balancing the budgets, and also to supplement the project and program activities of our communion office departments.

In 2013, the Membership fees contribution continued to increase with 115 member churches contributing EUR 2,545,503. This is a significant and remarkable increase in the number of churches that contributed, from 69 member churches in 2012 to 115 member churches in 2013 (81%).

The table below shows an analysis of membership income for 2013.

(Income is shown in EUROS)	2012	2013	Variance
Number of members paying membership fee (in full or in part)	69	115	46
Percentage of members paying in full or in part	49%	81%	
Income from these members	2,379,861	2,521,123	141,262
Income paid from prior (unpaid) years	26,696	24,380	-2,316
Total membership contributions received for the year	2,406,557	2,545,503	138,946
Budgeted membership income for the year	2,300,000	2,458,000	
Number of members not paying anything	73	27	-46
Percentage of members not paying anything	51%	19%	

This achievement would not be possible without the dedicated support, caring and hard work of our member churches. Thank you for your commitment to this aspect of our life together. I would like to place on record my deep appreciation to all for your support and faithful stewardship.

Membership fees are set based on a formula that indicates the relative wealth of the member church country compared with other member church countries.

The level of membership fee contributions continues to lag the total of fair membership fees. Growth in membership fee income would help to provide support for areas that have been identified as high priority in the strategic planning process, such as theological and ecumenical work. The following graph lists the development of the Membership fee income from 2006 to 2013.

Membership Fees: 2006 to 2013

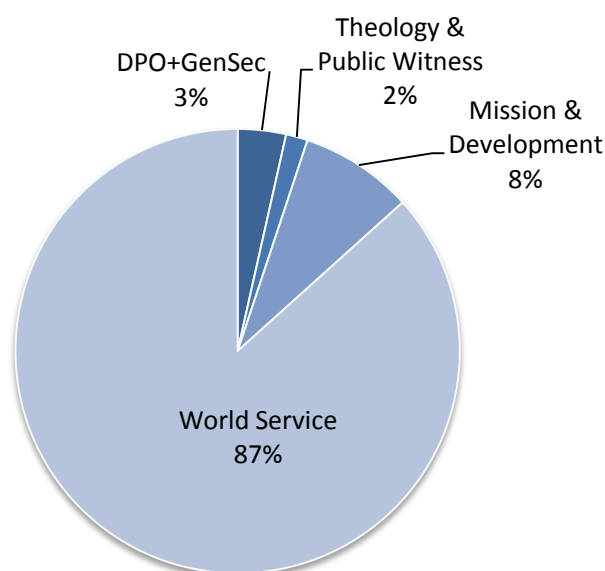


Exhibit 10.1 is the list of the LWF member churches and the proposed membership fees for 2015-2017. The LWF communion office is recommending that there be a minimum membership fee of US 100.00 (Euro 77.00) per member church.

2.5 Expenditures

The 2013 total expenditure of the LWF amounted to EUR 101.6 million compared with EUR 97.8 million in 2012. This is an increase of EUR 3.8 million or 4%. The following chart shows total expenditure by department.

LWF 2013 Expenditures – EUR 101.5 mi



3. Reserves

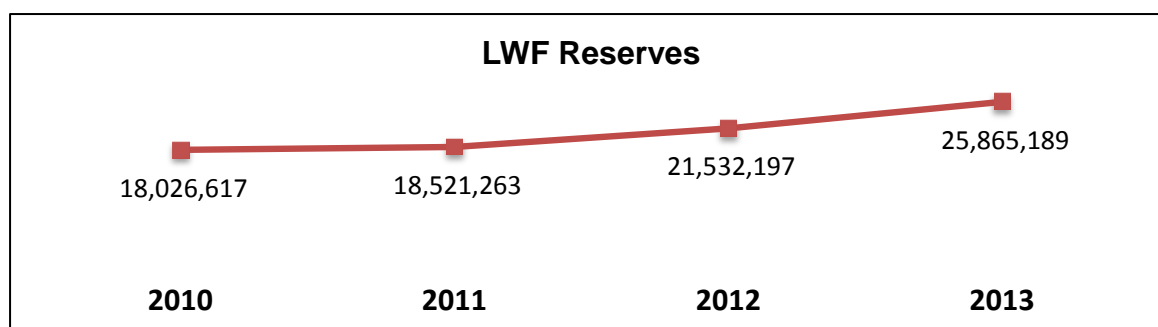
“Reserves” refer to net assets available to support the operations of the organization without restrictions. LWF Reserves are guided by the reserves policy. Reserves in LWF consolidated financial reports are shown as unrestricted reserves but designated or “ear-marked” for specific purposes of the departments.

In 2013, LWF reserves increased from EUR 21.7 million to EUR 22.3 million, after the restatement of pension liabilities under IAS(19).

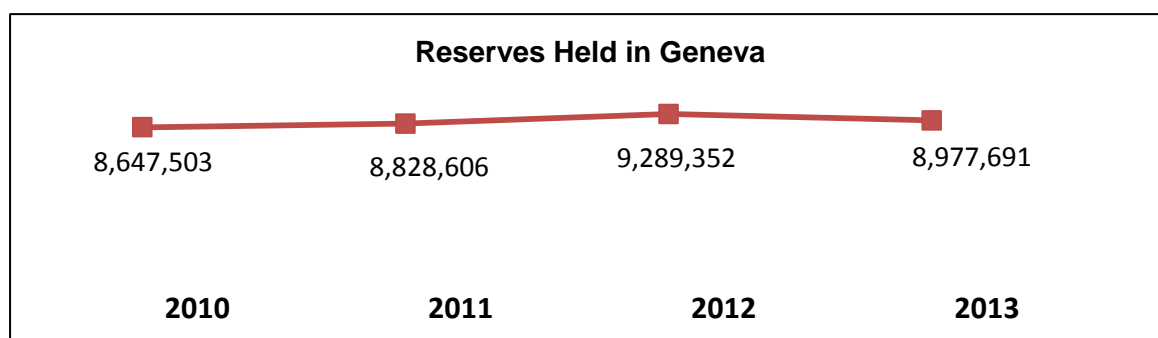
The DWS Field coordination surplus, as in 2012, is attributed mostly to the financial results of the Augusta Victoria Hospital in Jerusalem (AVH). During the year, AVH compiled an accounting surplus of EUR 4.4 million through accrual of income and receivables. The more volatile nature of AVH operations as a result of cash flow challenges stemming from unpaid receivables results in a need for higher reserves for DWS. These reserves have been used in the past to cover the hospital renovation deficit and patient fee receivables.

In 2013, the hospital patient fees amounted to EUR 20.1 million, 33% higher than in 2012, and the receivables increased to EUR 19.4 million from 12.6 million in 2012, a 53 % increase. This high amount of outstanding receivables affects the cash flow. It would be advisable that the receivables of AVH be limited to the amount of AVH reserves in order to avoid financial crisis.

The following chart shows the development of the reserves from 2010 to 2013, before the restatement of pension liabilities under IAS(19).

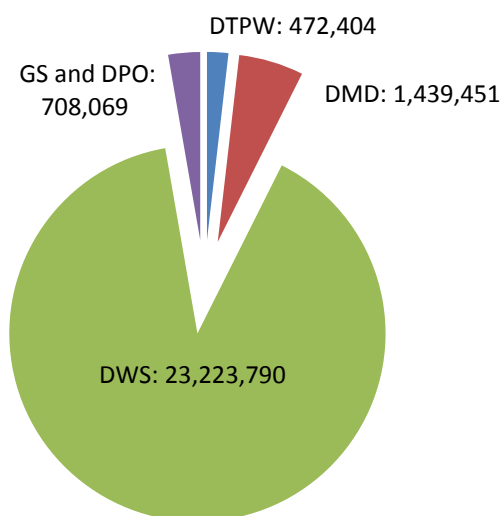


The chart below depicts the reserves kept in Geneva and represented in treasury funds.



Following chart shows the total reserves held by each department

2013 Reserves - by Department in Euros



4. Staff Welfare Plan – LWF Pension Fund

The LWF Staff Welfare Plan – Pension fund has been liquidated and the authorities removed the name from the registry in 2014. All assets and liabilities were taken over by the Stiftung Abendrot, effective January 1, 2012, and an agreement has been signed by LWF and Abendrot Foundation. With the liquidation of the LWF Staff Welfare Plan, LWF is only liable to pay the monthly employer contributions to the fund and no longer liable for managing the pension funds nor for any under coverage in pension funds.

The pension fund coverage level in June 2013, at the time of signing the final agreement, was 98.59% with a shortfall of CHF 377,872. Based on the principle that LWF and LWF staff members share the under coverage in the ratio of 50:50, LWF paid CHF 251,000 (EUR 201,000), the equal share for the years 2012 and 2013.

A Staff Pension Plan Committee (SPPC) was constituted with employer and employee representatives to govern the affairs of the pension fund. The employer's representatives on the new Staff Pension Plan Committee have been appointed by the LWF Meeting of Officers/Board of Trustees and the employees' representatives were elected by the employees. The SPPC members have the right to attend the Stiftung Abendrot Annual Meeting. The LWF coverage ratio at the time of the transfer to Abendrot was 95.8% while that of Abendrot was 104%. By December 2013, the LWF coverage ratio had increased to 102% and the Abendrot coverage ratio was 106%.

As of 2013, it is mandatory in accordance with the IFRS IAS(19) revised standard on accounting for employee benefits to adopt the standards and restate the impact in the consolidated financial reports. Based on this, LWF evaluated the pension liabilities and made the changes in its financial reports to reinstate the liabilities for 2013 and prior years. Consistent with this, an unbudgeted charge of EUR 230,000 was booked in 2013.

5. LWF Endowment Fund

The LWF Endowment Fund is a separate legal entity; its results are not consolidated within the LWF financial statements. The Report of the LWF Endowment Fund Board is in Exhibit 17.2. Contributions to the endowment fund in 2013 were CHF 91,191, following the lowest point in 2012 and continuing a trend of receipts below expectations. On the other hand, the investment performance of the portfolio in 2013 was positive with a net return of CHF 582,129.

The 2013 Operating Reserve shows a positive balance of CHF 530,171 that is available for potential distribution as per the distribution policy. The total assets of the endowment fund are CHF 13,809,660 including the endowment benefiting LWF that is held in the ELCA Endowment Fund Pooled Trust.

5.1 Financial performance during 2013

A positive year in stock market performance resulted in another good year of performance for the Endowment Fund during 2013. After huge losses in 2008 due to the downturn in the global economy, the operating reserve is back in a surplus position and at approximately the same market value as where it was six years ago. The table below summarizes the performance of the Endowment Fund since 2007 based on the Audit Report.

Year	Net Assets (CHF)	Investment Result (CHF)	Annual Results (CHF)	Operating Reserve (CHF)	Funds in USA (US\$)
2007	10,089,858	-106,445	-86,384	562,215	1,252,025
2008	8,709,673	-1,827,280	-1,781,522	-1,505,136	925,718
2009	10,405,436	1,021,373	1,082,336	-422,800	1,294,718
2010	10,790,265	95,940	126,560	-296,240	1,518,098
2011	10,226,345	-743,393	-707,128	-1,003,368	1,423,063
2012	11,311,762	883,293	951,410	-51,958	1,802,808
2013	11,985,082	645,270	582,129	530,171	2,019,476

6. Institute for Ecumenical Research in Strasbourg

The report on the Institute for Ecumenical Research in Strasbourg is included as a separate report to the Council (Exhibit 14.1). It is a distinct legal entity with its own board and its results are not part of the consolidated financial statements of the Lutheran World Federation. The financial situation of the institute is currently stable. The Institute had net assets of EUR 2.8 million at December 31, 2013 with income for the year of EUR 434,000 and positive net results. The total reserves amount to EUR 2.5 million.

7. Committee Responsibilities

Over the course of their meeting, the LWF Committee for Finance will review the following items and forward their related recommendations to the LWF Council:

- The LWF Audited Financial Statements for 2013
- The Appointment of the External Auditor for 2014
- The Communion Office Operational Plan (2015-2016)
- The LWF Budget and Program Plan for 2015
- The LWF Membership Fees 2015-2016
- The LWF 12th Assembly Budget

8. Concluding Remarks

The leadership of the Lutheran World Federation, its staff and its Council, has maintained a strong commitment to financial stability, a balanced budget and adequate cash reserves to ensure ongoing operations. I am grateful for this outstanding leadership. It is a privilege to work with the staff and to serve the LWF Council as chair of the Committee for Finance.